



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	02/22/06	Bill No:	AB 2329
Tax:	Local Sales and Use	Author:	Oropeza
Related Bills:	AB 588 (Goldberg & Koretz) SB 143 (Ch. 679, Runner)		

### BILL SUMMARY

This bill would require state agencies that prepare and maintain data and statistics on cities, to prepare and maintain a separate statistical analysis with respect to the South Bay Cities and Harbor area within the County of Los Angeles.

### ANALYSIS

#### Current Law

Since 1976, pursuant to Section 11093 of the Government Code, the Department of Finance, the State Department of Health Services, and the Department of Transportation have been required, in the preparation and maintenance of any statistical analyses of cities, to make a separate breakdown of the San Fernando Valley. The City of Los Angeles is required to provide all necessary data. However, other state agencies were not required to prepare or maintain any statistical information by city unless: (1) information was currently being prepared or maintained by city; or (2) a state agency voluntarily prepared or maintained information by city.

Effective January 1, 2005, Assembly Bill 2207 (Chapter 181, Statutes 2004) requires any state agency or department that develops and maintains data and statistics on the municipal level to make a separate breakdown of the San Fernando Valley in the preparation and maintenance of any statistical analyses by city, and authorizes state agencies to require the City of Los Angeles to provide all necessary data. If the use of a tax area code is required in order to make a separate breakdown of the San Fernando Valley, then an alternate method may be used to determine the separate breakdown of the San Fernando Valley. Also under current law, the Controller may, upon request in a motion adopted by the City Council of the City of Los Angeles, designate additional statistical areas within the City of Los Angeles, except that the statistical areas shall not exceed three in number.

Under current Bradley-Burns Uniform Local Sales and Use Tax Law, the Board is required to collect and maintain local tax data by city, county, or city and county. Under current Transactions and Use Tax Law, the Board is required to collect and maintain local tax data by special taxing district. The Board, in its annual report, publishes the following statistical data: (1) State Sales and Use Tax Statistics by County; (2) Revenues Distributed to Cities and Counties From Local Sales and Use Taxes; (3) Revenues Distributed to Counties From County Transportation Tax; and (4) Revenues Distributed to Special Districts From Transactions and Use Tax.

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The Board publishes both a quarterly and annual booklet titled "Taxable Sales in California (Sales & Use Tax)." The booklets are a quarterly or annual report on retail sales activity in California. These reports provide taxable sales data by: (1) Statewide Taxable Sales, By Type of Business; (2) Taxable Sales, By County; (3) Taxable Sales in the 36 Largest Counties, By Type of Business; (4) Taxable Sales in the 22 Smallest Counties, By Type of Business; (5) Taxable Sales in the 272 Largest Cities, By Type of Business; and (6) Taxable Sales in All Cities Except the 272 Largest. Both the quarterly and annual reports are available on the Board's website at [www.boe.ca.gov](http://www.boe.ca.gov).

### **Proposed Law**

This bill would add Section 11093.7 to the Government Code to provide that any state agency or department that develops and maintains data and statistics with respect to municipalities would be required to prepare and maintain a separate statistical analysis with respect to the South Bay Cities and Harbor area within the County of Los Angeles.

### **COMMENTS**

- 1. Sponsor and purpose.** This bill is sponsored by the South Bay Partnership (Partnership) in an effort to obtain statistical information for the South Bay Cities and Harbor area which is comprised of 18 cities within Los Angeles County and the unincorporated area of Los Angeles County that is bordered by Harbor Gateway, Harbor City, and Carson. According to the sponsor, the Partnership provides business assistance services such as expansion and relocation sites for the South Bay region, tax structures and abatements, community profiles, economic and demographic information, trade coordination with the San Pedro Bay seaports, Los Angeles International Airport and foreign trade zones, railroads, and utility companies. The Partnership believes that certain statistical information will assist them in enhancing the services they currently provide and also help them to develop a regional vision shared by all jurisdictions in the South Bay Cities and Harbor area.
- 2. To develop data using the Board's tax area code system would be costly.** As previously stated, the Board maintains two types of data by city and county: distributions of local sales and use tax revenues and taxable sales. This information is collected and maintained using a tax area code system. All registered permit holders are assigned a twelve (12) digit number that identifies the city and county in which the account is located, as well as any special districts or redevelopment areas. All newly incorporated cities are assigned a tax area code.

This bill specifies the South Bay Cities and Harbor area to be comprised of 18 incorporated cities and the unincorporated areas of Los Angeles County that includes El Camino Village, Del Aire, Lennox, and the incorporated area of Los Angeles County that is bordered by Harbor Gateway, Harbor City, and Carson. The Board already prepares data on the 18 incorporated cities within the designated area. The data that the Board does not have are the accounts located within the South Bay Cities and Harbor area that is within the unincorporated area of Los Angeles County.

To implement the provisions of this bill using the Board's existing system, the Board would have to treat the South Bay Cities and Harbor area that is within the unincorporated area of Los Angeles County as a newly incorporated city. This would require creating a special tax area code for this new city, and identifying all accounts within the designated area. Using maps and street listings that would be required to be provided by the County of Los Angeles, Board staff would have to compare each business address from the Board's records to the county's street listing to identify those accounts within the unincorporated areas of Los Angeles County that is within the South Bay Cities and Harbor area.

Once the accounts have been identified, each account must be changed on the Board's registration system. This would require changing the tax area code, entering comments regarding the nature of the changes made, and other minor modifications. When changes have been made to the registration system, a listing of all accounts that were changed, as well as copies of maps and street listings, are forwarded to the appropriate district offices for distribution to personnel responsible for registration of new accounts.

Other tasks associated with implementing this bill would include: preparing written guidelines for audit and compliance staff; designing and printing a special mailer to be mailed with the tax returns to all affected accounts; and revising various forms and publications.

3. **"Alternate method" for the San Fernando Valley.** Prior to the enactment of Assembly Bill 2207, Board staff met with the author's staff to discuss how it prepares statistical data on cities. Board staff explained that to use a tax area code to make a separate breakdown for the San Fernando Valley would be too costly. The bill was therefore amended to provide that, in the case where a tax area code is not used in making a separate breakdown for the San Fernando Valley, an alternate method may be used instead. It was agreed that if the City of Los Angeles were to compile data on the San Fernando Valley, with the Board performing a minimal amount of verification, such work could be done with minimal costs to the Board. However, any other method that would require the Board to compile all the data would result in significant costs to the Board.

It was also agreed that the Board would publish the data provided by the City of Los Angeles in the Board's "Taxable Sales in California (Sales and Use Tax)" publication with any taxable sales data on the San Fernando Valley footnoted to reference the City of Los Angeles as the source of the data, since the Board would not be preparing the data.

Assembly Bill 2207 became effective January 1, 2005. The Board's taxable sales figures for the first quarter of 2005 were released on March 16, 2006, but there were no taxable sales figures released on the San Fernando Valley as the City of Los Angeles did not provide Board staff with any data.

4. **Could taxable sales data be developed using zip codes?** Zip codes are developed for purposes of mail delivery and not geographical boundary determinations. In general, city boundaries and zip codes do not coincide. Some cities have multiple zip codes. For example, most of the City of Diamond Bar is in 91765 zip code, but the City's western area is in the 91789 zip code, centered on the

adjacent City of Walnut. Some zip codes encompass parts of a city and the unincorporated area of a county. For example, the City of Trinidad and parts of Humboldt County have the same zip code. Therefore, to develop data using zip codes can result in the data being materially under- or over-stated.

In addition, the Board can extract data using zip codes for a sales and use tax account that consists of a single selling location. However, the Board's system cannot extract data using zip codes for consolidated accounts, which is a sales and use tax account consisting of two or more selling locations for which a single tax return is filed. The Board's local sales and use tax schedules for consolidated accounts are based on tax area codes, not zip codes. An example of a consolidated account would be Long's Drugs, which could have 15 stores reported on one consolidated return. The data on the individual stores would be reported based on tax area codes. Additionally, if two or more stores are in the same tax area code, the retailer may report a combined amount of tax for that tax area code, thus making it impossible to identify an amount attributable to the individual location. Therefore, to develop data using zip codes that would not capture the sublocations on consolidated accounts would result in very imprecise data almost to the point of being meaningless.

- 5. This bill could complicate retailers' reporting.** As previously stated, to implement the provisions of this bill, the Board would have to treat the South Bay Cities and Harbor area that is within the unincorporated area of Los Angeles County as a newly incorporated city. For consolidated accounts covering more than one selling location, taxpayers are required to file an additional schedule which allocates the local tax among the cities and unincorporated areas of counties in which the sales locations are located. For consolidated accounts, a separate breakdown would have to be made for the new city. This could confuse taxpayers as they would have to allocate for tax purposes the local tax to the jurisdictions where the sales outlets are located, then in addition, for informational purposes, make a separate allocation for this new city.

There are certain industries which require special allocation of local taxes. For example, lessors of motor vehicles must allocate the local tax due on certain leases to the jurisdiction of the new motor vehicle dealer from whom the lessor acquired the leased vehicle. For transactions of \$500,000 or more, by sellers engaged in business in California, the local tax must be reported on a special local tax schedule. These taxpayers would also have to make a separate allocation for the new city.

- 6. The Board provides registration and allocation information upon request to cities and counties.** Registration information includes the following: (1) account name (and dba, if applicable); (2) business address; (3) account number; (4) code for type of ownership; and (5) code for type of business. In addition to the registration data provided by the Board, local jurisdictions may also request a list of the local sales tax dollars allocated to the jurisdiction from taxpayers' returns and from nonrecurring transactions such as audits, refunds, fund transfers, and payment from late returns. Cities and counties typically monitor this data for questionable tax allocations or unusual dollar amounts, but also find it useful as a budgeting tool.
- 7. Related Legislation.** Assembly Bill 588 (Goldberg and Koretz) would require the Board, Franchise Tax Board, Employment Development Department, Department of Industrial Relations, Department of Finance, Department of Housing and Community

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Development, Department of Real Estate, California Housing Finance Agency, Department of Motor Vehicles, Department of Transportation, Department of General Services, and the Department of Fair Employment and Housing, in the preparation and maintenance of any statistical analyses and data by city, to make a separate breakdown of the community of Hollywood. This bill would also require the City of Los Angeles to provide all necessary data. AB 588 was enrolled and presented to the Governor. However, the bill was subsequently returned by the Governor at the request of the Assembly. AB 588 is currently on the Senate inactive file.

Senate Bill 143 (Ch. 679, Stats. 2005, Runner) requires the Department of Finance (DOF) and the Employment Development Department (EDD), in the preparation and maintenance of any statistical analyses and data by county, to make a separate breakdown of the Antelope Valley, as specified. This bill also provided that the Legislature encourages the counties of Kern and Los Angeles to voluntarily provide data to those state agencies. The prior versions of SB 143 would have required the Board, Franchise Tax Board, Department of Industrial Relations, and the Business, Transportation and Housing Agency, in addition to the DOF and EDD, to make a separate breakdown of the Antelope Valley. However, the bill was amended to require only the DOF and the EDD to provide such information.

## **COST ESTIMATE**

This bill would require all state agencies that develop and maintain data with respect to municipalities, to prepare and maintain a separate statistical analysis with respect to the South Bay Cities and Harbor area within the County of Los Angeles. A cost estimate is pending.

## **REVENUE ESTIMATE**

This bill would not impact the state's revenues.

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